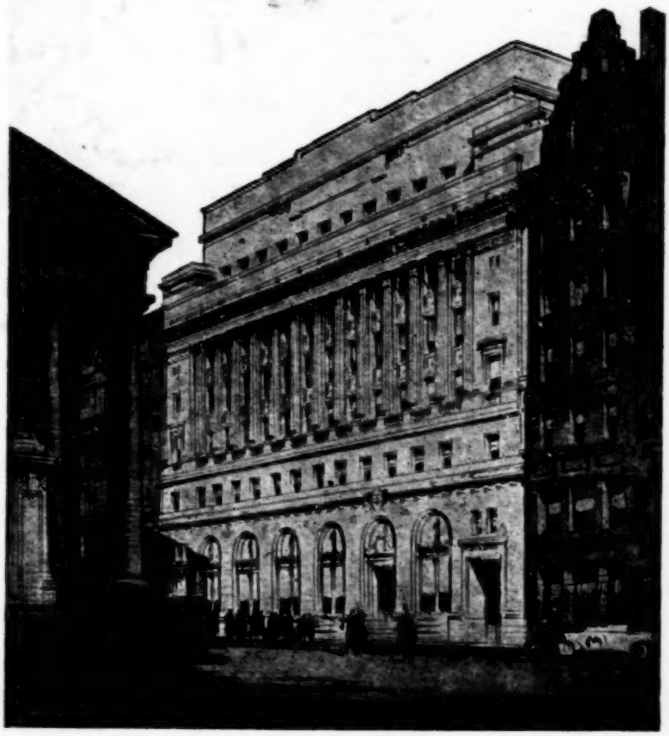

Lloyds Bank Limited

MONTHLY REVIEW

SEPTEMBER 1931

1677

TABLE OF CONTENTS

Lloyds Bank Limited Monthly Review

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The National Finances

THE majority report of the Committee on National expenditure, published at the end of July, is one of the most important State documents of recent years, and it is the duty of all patriots to bring its lessons home to the public. How urgent this duty has become is proved beyond question by the rapid progress of events during the succeeding weeks. Their sequence is clear beyond doubt. At a time when world confidence was already badly shaken, a body of experts appointed to examine the condition of our national finances presented a statement of account which led to the conclusion that if matters were allowed to drift, next year we would have a deficit of £119,000,000. Whatever the justification for this figure, it has undoubtedly had a profound effect upon world opinion, and this at a time when our short-term indebtedness to the world is beyond our *immediate* capacity to meet it. If we are to avoid the difficulties Australia and Germany have recently experienced, it is imperative that we should make it clear at once that we are determined to put our house in order.

It was knowledge of their inability to carry out this task without delay that led to the fall of the Labour Government on August 24th. This work is the first, and far and away the most important, duty of the new Government. As Mr. MacDonald said on August 25th, "Action, swift, decisive and effective is asked for . . . . Everyone from whom we have borrowed, or who has placed deposits in our keeping, must be assured that the budget will be balanced, and that assurance is to be given at once, not only as a declaration of intention but as a programme with essential details."

The Economy report begins by presenting the arithmetic of the national finances. Starting with the budget estimates for 1930–31, in which revenue and expenditure approximately balanced, it proceeds to do the following sum :—

	£
Probable excess of 1932 over 1931 expenditure	12,000,000
Estimated draft by Road Fund upon Exchequer	10,000,000
Estimated "borrowings" of Unemployment Insurance Fund which majority of Committee state should properly rank as expenditure	40,000,000
Total additional expenditure (*a*)	62,000,000
Disappearance from 1932 budget of 1931 "windfall" revenue items	37,000,000
Probable short-fall of 1932 revenue below 1931 estimate, due to continuance of trade depression	20,000,000
Total estimated short-fall of revenue (*b*)	57,000,000
Estimated 1932 deficit ($a + b$)	119,000,000

To save misconception abroad, it may be advisable to point out that this deficit of £119,000,000 is arrived at after including in expenditure the amount of £50,000,000, presumably to be allocated to the amortisation of the National Debt; so that in one sense the true deficit is only £69,000,000. Alternatively, if the present unjustifiable practice of excluding Unemployment Insurance borrowings from the budget were continued, the deficit would be £79,000,000.

The only ground for making these qualifications is to dissipate any impression that in a single year our budget position is deteriorating to the extent of £119,000,000, whereas the real truth is that part of the deterioration has been present in the budget every year since the Unemployment Insurance Fund failed to balance. No one can justify any mitigation of this unpalatable total of £119,000,000 either by any suggestion of suspending sinking fund allocations, or by ignoring the irrecoverable borrowings of the Unemployment Insurance Fund, and the Committee has done well to call the nation's attention to the full implications of these unpleasant facts.

It was this figure of £119,000,000 that the Committee had to attack, and the majority were guided in their campaign by three main principles :—

(1) That the rise in the value of money in recent years provides a strong *prima facie* case for the revision of money obligations fixed under other conditions. In considering the emoluments of public servants we have also had regard to the principle of "fair wages."

(2) That existing financial difficulties make it necessary for the nation, like the private individual, to consider seriously what it can afford and not merely what is desirable. Reviewed from this standpoint much expenditure is unwarrantable at the present time, which, under more favourable conditions, we should deem justifiable and even a wise investment of the national resources.

(3) That only by the strictest regard to economy and efficiency over a long period can the trade of the country be restored to its pre-war prosperity and any substantial number of the unemployed be reabsorbed into industry.

In furtherance of these, they make a series of proposals designed to affect (*a*) immediate savings, and (*b*) future savings. The former are of such urgency that they must be cited in detail.

IMMEDIATE SAVING. PAY AND PENSIONS.	*Saving to Exchequer in a full Year.* £
Abolition of preferential bonus paid to Government industrial employees in the dockyards and ordnance factories ...	325,000
Introduction of 1925 rates of pay for all *personnel* of the fighting services	2,199,000
Introduction of revised cost of living deduction for officers of the fighting services	400,000
Reduction of pay of police by 12½ per cent, less rateable deductions towards cost of pension. Exchequer share... ...	925,000
Reduction of pay of teachers by 20 per cent. The saving from this reduction is incorporated below under education grants	—
Introduction of revised cost of living deduction from pensions of officers of the fighting services	190,000
Abolition of grant of marriage gratuities in the Civil Service ...	167,000
DEFENCE.	
GENERAL :—	
Reduction of expenditure on research and technical development by 12½ per cent	300,000
Reduction of Education Votes by 10 per cent	150,000
Reduction of inspection costs by 10 per cent	100,000
Stabilisation of Works Votes over a period of years	150,000
Reduction of clothing allowances by 10 per cent	154,000
NAVY :—	
Further saving to be obtained from the introduction of Royal Marine Police at Dockyards	50,000
ARMY :—	
Discontinuance of subsidies for mechanical transport ...	20,000
Discontinuance of light horse breeding scheme	30,000
AIR FORCE :—	
Abandonment of new programme of research in civil aircraft (second year's instalment of a total of £40,000)	25,000

	Saving to Exchequer in a full Year. £
DEVELOPMENT.	
ROAD FUND.—Postponement and slowing down of schemes and lowering of the present very high standard of maintenance	7,865,000
MINISTRY OF AGRICULTURE AND FISHERIES.—Reduction of agricultural education grants to 50 per cent, limitation of grants for research, expenditure on livestock improvement to be recovered or discontinued, reduction of land drainage grants, cessation of " foreground " publicity, involving in all reduction of the gross forecasted expenditure for 1932 by	500,000
DEPARTMENT OF AGRICULTURE, SCOTLAND.—Reduction on lines similar to proposals as regards England and Wales and modification of Scottish Land Drainage Act ...	75,000
FORESTRY COMMISSION.—Cessation of land acquisition and restriction of planting and provision of forest workers' holdings	478,000
EMPIRE MARKETING BOARD.—To be abolished, involving a saving, in addition to savings already allowed for on the gross votes for the Department of Overseas Trade and the Agriculture and Fisheries Departments of	400,000
COLONIAL DEVELOPMENT FUND.—Limitation of annual grant to £750,000	250,000
SOCIAL SERVICES.	
UNEMPLOYMENT INSURANCE.—Reductions of benefits by 20 per cent, increase of weekly contributions to 10d. each for workers, employers, and the State in the case of men, extension of scheme to include certain classes now outside it, application of needs test by public assistance authorities to all applicants who have exhausted their insurance rights, but are still within the industrial field. Reductions of State liability less Government grant to local authorities	66,500,000
NATIONAL HEALTH INSURANCE.—Reduction of the capitation payments to doctors, National Health Insurance (Prolongation of Insurance) Act, not to be extended, revival of State grant to the Central Fund to be avoided by a greater measure of pooling among approved societies ...	1,000,000
EDUCATION.—Abolition of 50 per cent minimum limit of grant, reduction of teachers' salaries by 20 per cent and of the grant in respect of teachers' salaries from 60 per cent to 50 per cent, reduction of grants for higher education in consequence of 20 per cent reduction in teachers' salaries and increase of school fees, reduction of growth of education expenditure in 1932, and proportionate reduction for Scotland	13,600,000
Reduction in grants to universities and colleges	250,000
MISCELLANEOUS.	
BRITISH BROADCASTING CORPORATION.—Reduction of percentages of wireless licence receipts paid to the B.B.C. ...	475,000
Total ...	£96,578,000

Now it is easy to seize upon any one of these items, and to argue that it inflicts considerable hardship upon the individuals affected, or that it retards the development of the country to the point where it becomes false economy. It is easy to contend that, even allowing for the reduction in the cost of living, certain cuts are too severe; or to accuse the Committee of usurping the functions of the Unemployment Insurance Committee, and of out-Heroding even the drastic recommendations of that body. All this is easy enough, but it ignores the essential fact, which is that if the present unbalanced state of the national finances is allowed to continue and develop, the hardships that will be inflicted upon all classes of the community, including those affected by the Committee's majority recommendations, will far outweigh the relatively limited loss which will arise from the implementation of the majority report. It is necessary to insist that before anyone seeks to whittle away these recommendations, he must be required to state categorically what other economies he is prepared to put in the place of those he rejects.

The real criticism of the report is not that it is in certain respects too drastic, but that it covers too narrow a field, and has left whole areas of national expenditure, ripe for the economy axe, untouched and even unexplored. Out of the total saving of £96,000,000, no less than £88,000,000 is derived from three sources alone, namely, unemployment insurance, education and roads. So disproportionate a result inevitably arouses the suspicion that the work of the Committee is not so extensive as it could have been, and when the short time at their disposal is remembered, it is impossible not to believe that many Government departments were inadequately reviewed. Had the Committee had time to give to all departments the detailed attention each one merited, their recommendations might easily have sufficed to meet the whole of the estimated deficit of £119,000,000.

Certain apparent omissions can usefully be outlined.

(1) The co-ordination of Government Departments is rejected or ignored. The Committee refuse to countenance the creation of a Ministry of Defence, and while they profess themselves satisfied that this would not result in any substantial economy, they fail to give

adequate evidence in support of their opinion. There is no sign that they have explored the possibility of combining such offices as the Board of Trade and the Ministries of Labour, Transport and Mines into a single ministry, and the cost of the Ministry of Labour with the labour exchanges is left untouched.

(2) The fighting services are dealt with on too hypothetical a basis, and economies are made too contingent upon the progress of world disarmament. While it is true that policy and cost must here be considered together, there are matters omitted from the report which will merit consideration. The Committee's comments upon new works and buildings are not over-convincing. No mention is made of the possibility of amalgamating army commands or regimental depots in England. There is an absence of that detailed review of service expenditure that was a prominent feature of the Geddes report.

(3) The Committee have not applied to Civil Service salaries that degree of necessary ruthlessness that is to be found in the sections dealing with education and unemployment insurance. The principle of equality of sacrifice might perhaps have been pressed a little harder.

(4) Again, while it is suggested that the capitation fee for doctors under the Health Insurance schemes should be reduced to 8s., no attempt is made to reduce the salaries of medical officers nor to amalgamate the services of such officials as belong to Health, Pensions and other offices.

(5) There is no evidence that the emoluments of legal advisers to various Government offices are to be dealt with in the same way as the fees of medical advisers. The two classes should be dealt with on an analogous footing.

(6) The Post Office, the Office of Works, and above all the Stationery Office are only three among many potential fields of retrenchment that have been left unexplored.

It is true that the rectification of these omissions might not yield much in the aggregate, but it would at least remove any fear in the popular mind that the majority report had been somewhat partial in their wielding of the axe, and so render the report more acceptable to the public. In any case, with a deficit of over £20,000,000 remaining even if the majority recommendations are adopted, no possible opportunity of saving can be neglected.

It is also necessary to take a longer view. If comparison be made of the relative scale of taxation, both national and municipal, here and abroad, and the handicap that this difference imposes upon British industry, it may well be found that even more drastic economies are required than those implied in the majority report. The plain truth is that to-day we are over-governed and trade and industry need more freedom from official interference. There is scope for immense simplification in administration, and a rigid rationing of departmental expenditure seems imperative if we are to place our economic life upon a sound basis. This is one aspect of their problem that seems to have escaped the notice of the members of the Economy Committee.

Still, the Committee have in the main performed an unpleasant task well, and have made clear to the nation the serious nature of its position. The danger the new Government and the nation have to meet is clear. The drain upon our reserves, both public and private, due to the failure of successive Governments to bring national expenditure within the capacity of the country to meet the bill, has now reached the point where it is impairing world confidence in our financial stability. Already foreign centres have been withdrawing their funds from London, and by the time the late Government fell even the special measures taken to meet these withdrawals were near the limit of their powers. The choice lay between drastic economy and imminent collapse, and we have sufficient confidence in ourselves and our new Ministers to be certain that they will choose aright, and carry that decision into effect. We ask the world to extend to us patience and trust for the short time needed to implement a nation-wide decision to put our house in order.

**** It is proposed to publish from time to time in Lloyds Bank Monthly Review signed articles by economists of standing, affording opportunities to exponents of different theories to state their case. The Bank is not necessarily in agreement with the views expressed in such signed articles.*

The Problem of Over-Production

By Harold Cox

THERE is reason to fear that the world has reached a stage in which unemployment on a large scale is likely to be permanent, unless we can secure some drastic readjustment of population to powers of production. The outstanding industrial fact to-day is that all over the world machinery is playing an increasing part in production, and there is a corresponding decline in the demand for the human worker.

Up to a point this phenomenon is, of course, not a new one. Whenever new machinery has been introduced, anxiety has been felt by the wage-earning classes lest their jobs should disappear. Notably this was the case in the cotton and woollen industries in Lancashire and Yorkshire in the eighteenth century. But the trouble in these industries very soon righted itself by the expansion of the market for the goods produced. The relatively cheap and well-finished products of the machine commanded a sale all over the world, and in a comparatively brief period the demand for labour increased instead of declining. Indeed, one of the outstanding results of the development of steam-driven machinery in the later years of the eighteenth century, and in the greater part of the nineteenth century, was a rapid increase in the population of Great Britain in order to secure a sufficient supply of persons—especially young persons—to act as machine tenders.

That phase of our industrial development is now at an end. The textile industries of Lancashire and Yorkshire have ceased to expand; they are visibly declining. Many mills are working short time; others are being closed down altogether. From the point of view of employment the situation is likely to grow even worse than it is. For, as most of our industrial leaders are now urging, England cannot hope to hold her own in competition with cheaper labour abroad unless her industries are "rationalized," which means, in practice, a reduction in the

amount of labour required for each unit of output. Out-of-date machinery is to be scrapped and new machinery introduced which will enable one man to do the work for which two or three or four are now required. How far this process will succeed in effecting the object aimed at, namely, the recovery of foreign markets, is somewhat doubtful; for other countries have equal opportunities for rationalizing their industries, and there is every prospect that they will do so. In any case the result is likely to be a larger world output with less employment of labour, and no corresponding growth in consumption.

This prospect affects agricultural as well as urban industries. In the United States of America the agricultural problem seems, indeed, to be the more serious; so also in Canada. In both these countries collective efforts have been made to deal with the wheat surplus by forming gigantic wheat pools, so that the farmer can be saved from throwing his wheat on the market at an unprofitable price. But obviously this is only a temporary device. It might serve its purpose if the excessive abundance of wheat were solely due to one year's specially favourable harvest, which would be cancelled out by a succeeding poor harvest. But the root of the trouble in the United States and Canada seems to be the wide extension of cultivation at low cost as the result of the improvement in agricultural machinery. As an American writer put it in an address to a big business association :—

> "Our agricultural problem arises from the fact that in many of our important lines we produce more than we can consume. Consumption cannot be materially increased. Thin figures require not more wheat but less. Short skirts require not more textiles but less."

Some interesting figures on the estimated world production and world consumption of various staple commodities were published in three articles that appeared in *The Economist* a year ago. Of necessity the figures were to some extent speculative, for there is no existing means of obtaining an absolutely precise record of the total amount of cotton or wool, or tin or lead, or rubber or tea, produced year by year in different parts of the world. But we may accept the authority of *The Economist* as sufficient ground for the assumption that the figures are approximately accurate. A few examples from these statistical estimates may therefore be quoted.

Take first, tin. Between 1926 and 1930 both the production and the consumption of tin increased, but production kept steadily ahead of consumption, with the result that the world's visible supply of tin rose from a monthly average of 15,600 metric tons in 1926 to 43,300 in June, 1930. In the same period the London price of standard tin fell from £291 per ton to £140, and it has since fallen to £109 per ton.

The case of lead is very similar. Here also production in the past four years gained on consumption. The visible stocks in the U.S.A., Mexico and London increased from a monthly average of 105,700 metric tons in 1926 to 137,900 in March, 1930; London prices fell in the same period from £31 1s. 6d. per ton to £18 18s. 9d., and since to £12.

As regards raw cotton, the most significant fact seems to be the decline in consumption. This brought about last year a heavy fall in price. In September, 1929, the price of "American middling" was 10·66d. per lb. and by June, 1930, the price had dropped to 7·87d. In the same period Egyptian cotton declined from 17·70d. to 12·77d. Meanwhile the world's visible stock of raw cotton had increased by over 60 per cent. During the subsequent twelve months the fall in prices has been still more catastrophic, until a few weeks ago it culminated in the collapse of "American middling" to 3·60d. and of Egyptian cotton to 6·65d. per lb.

In the case of wool also the decline in consumption seems to have been the outstanding factor, with the result that stocks accumulated and prices fell. Australian stocks of raw wool increased from 874,000 bales at the end of 1927 to 2,250,000 bales at the end of 1929. There were similar increases in New Zealand and South Africa. The price of Australian wool, 64's average, fell from 45d. per lb. at the end of 1927 to 20d. in March, 1930, but since then the decline has been partially arrested.

As regards tea, *The Economist* notes that information is incomplete, but the figures, such as they are, go to show that since 1926 production has increased more rapidly than consumption. The market for tea has been specially hit by the falling off in Russia's consumption. The price of Northern Indian tea at London auctions fell from an average of 1s. 7d. per lb. in 1927 to 1s. 1d. in July, 1930, and was down to 8·69d. a year later.

The sugar problem has special features of its own. The output of cane sugar has been steadily increased during the past ten years by improved methods of cultivation, including scientific seed selection. Simultaneously the output of beet sugar has been increased by Government subsidies and by the stimulation of tariffs. Up till 1928, however, this increased production both of cane and beet sugar seems to have been fairly balanced by the increase in consumption. Then production began to get well ahead of consumption; world stocks increased and prices fell. This fall in price has hit the West Indies very hard, and they have lately appealed to the Mother Country to help them out of their difficulties. The trouble is that Government interference in such matters tends to increase the evil. Each country wants to encourage its own production, and the artificial aid given by the State stimulates further production, regardless of the condition of the world market.

Nor is the difficulty solved by the creation of pools or rings to limit production, as is shown by the story of rubber. The over-production of rubber in the East Indies led to the establishment of big schemes for restriction of output, but it was impossible to make these schemes cover all the regions available for rubber production, and the high prices that followed restriction stimulated increased cultivation, especially by native growers. It may fairly be argued that if there had been no artificial restriction the evil would have tended to right itself. The low prices caused by excessive production would have stimulated an increase in the world's consumption, and simultaneously they would have checked production.

An interesting example of the disadvantages resulting from schemes for holding up supplies by means of pools or rings is recorded in last year's report of the directors of the Argentine Great Western Railway. Among the goods carried by that railway is wine, locally produced. In March, 1930, a Wine Producers' Association was formed in the Argentine "with the object of acquiring and placing wine in reserve in order to maintain prices at a remunerative level." The report states that: "This proposal immediately brought about a pronounced falling off in despatch, as retailers considered prices too high and restricted purchases to those strictly necessary to meet the reduced demand." That meant a decline in business for the railway company, as well as for all the other parties concerned in the transport and sale of Argentine

wines. This is, of course, only a particular illustration of the general proposition that if the activities of one trade are reduced, the depression necessarily spreads to other trades.

We are still faced with the main problem : How are we to escape from the difficulties which result from the present lack of balance between the world's powers of production and the world's capacity for consumption ? Superficially such a lack of balance seems absurd. The producers of wheat have bigger stocks than they can dispose of, yet simultaneously there are millions of people in the world, especially in India and China, unable to get as much bread as they would like to eat. The same contrast applies to manufactured goods. Cotton mills, not in England only but in many other countries also, are producing more cotton cloth than they can profitably sell. Meanwhile, among the poorer classes all over Europe there are myriads of men and women and children insufficiently clad. How is a better adjustment to be secured ?

The popular socialist remedy—the raising of wages to increase the purchasing power of the working man—has the merit of surface simplicity, but it completely ignores fundamental facts. Raising the wages of the few handfuls of men who guide steam-ploughs or steam-harvesters across the prairies of Canada or the American Middle West is not going to increase the demand for wheat ; nor will an increase in the wages of cotton spinners and weavers increase the demand for Lancashire textiles. It may, of course, be argued that the higher-paid field-worker will buy more cotton goods, and the higher-paid cotton operative will buy more bread. But this argument ignores the fact that the world is not a single unit of production for wheat or for cotton, or for anything else. The producers in different countries are in keen competition with one another. If the wages of English cotton operatives were raised to any considerable extent the trade of Lancashire would be wiped out by the cheaper labour of foreign countries ; for it is inconceivable that the cotton workers in England, France, Belgium, Germany, Italy and Czecho-Slovakia, in India, China and Japan, could ever get together and agree to cease competing with one another in order that all their wages might be raised. Nor, even if such an agreement could be reached, would it solve the problem, for so far as the purpose of the agreement was attained and prices rose, consumption would tend to decline and fewer workers would be required.

As an alternative to the socialist contention that the problem of unemployment can be solved by artificially increasing wages, we have the equally ill-thought-out argument that if population were to expand more rapidly there would be an increased number of consumers and consequently a better market for the goods produced. But the mere multiplication of mouths and backs does not increase the commercial demand for food and clothing, unless the owners of the mouths and backs possess the means to pay for the food and clothing they want. Until by some miracle the masses of the population are all endowed at birth with comfortable incomes, they can only acquire the power to pay for the things they want by themselves earning money, and they can only earn money by competing in an already overcrowded labour market. The inevitable result of a rapidly growing population among the poorer classes must be a lowering of wages, and a further multiplication of the unemployed.

It is the standard of living that matters, not the number of people alive. A middle-class family with an income of £1,000 a year provides ten times as good a market for the varied products of industry as that provided by a working-class family living on £2 a week. Moreover, the well-to-do middle-class family will demand a large variety of commodities, many of them requiring skilled labour for their production, whereas the poor families can in the main only afford to pay for crude necessaries.

The essence of the world's present trouble is that there are too many poor people seeking employment, and relatively too few sufficiently rich to provide employment for the many. In earlier centuries death and disease to some extent prevented the expansion of this evil. The poor remained poor, but they also remained few. With the advent of steam machinery at the end of the eighteenth century the temptation of gaining weekly earnings for small children working in the mills stimulated a sudden uprush of population; but very little improvement in the standard of life of the wage-earner followed. Had the working classes at that period kept down their rate of increase they would have been able to secure better wages, and the machine would have been their servant and not their master. The benefits of machinery to the world might have been developed somewhat less rapidly, but they would have been more widely distributed.

In the later years of the nineteenth century the situation grew better. The working classes began to imitate the prudence of the upper classes; their families became smaller and their standard of living rose. The difficulty to-day is that methods of production in the last ten or fifteen years have so greatly improved that fewer manual workers are required to meet the demands of industry, yet the working-class population is still increasing its numbers, though at a slower rate than in previous decades. The result is that, taking the world as a whole, millions of men and women who would gladly be working are compelled to stand by. If these work-seekers would abstain from producing more work-seekers, the problem would begin to solve itself. The burden of the family budget would be immediately reduced, and that would mean less anxiety to the wage-earner and a higher standard of living for himself and his wife and his smaller family. Later on, the economic effect would be still more marked, for the number of young persons seeking employment would decline, and as the process continued the surplus of labour would be effectively reduced.

Many people are to-day criticizing Malthus because the shortage of food which he prophesied would occur, if population continued to increase without control, now seems far out of sight. But this does not mean that Malthus was wrong in insisting on the need for the prudential control of population. All it means is, that whereas he laid stress on the danger of starvation as the ultimate result of over-population, what we now find is that over-population means widespread unemployment with resulting misery to millions of people.

Finance and Industry

(11) Treasury Bills and the Floating Debt (a).

THE previous article dealt with the creation of the mass of commercial bills that are dealt in in the London money market. It is now time to consider the other great source of supply of bills in London, namely, the Treasury bills issued in the name of the British Government.

The material wording on a Treasury bill runs as follows: "This Treasury bill entitles * or order to payment of pounds at the Bank of England

* If this blank be not filled in, the bill will be paid to bearer.

out of the Consolidated Fund of the United Kingdom on the *." It is signed by the Secretary to His Majesty's Treasury. In effect it is equivalent to a bill of exchange drawn upon H.M. Treasury and made payable on its due date at the Bank of England.

Treasury bills form part of the floating debt of the United Kingdom, which, as its name implies, represents (or should represent) temporary discrepancies between the revenue and expenditure of the country which should be rectified by the end of the financial year. In particular, whereas national expenditure is spread evenly over the whole of the year, the bulk of the revenue is only collected in the last three months of the financial year. Thus the normal tendency is for the excess of expenditure over revenue to grow steadily from April until the end of December, and for revenue to catch up again during the months of January, February and March. Consequently the floating debt grows between April and December and contracts during the following quarter.

The floating debt takes three forms :—

(*a*) Treasury bills.
(*b*) Advances by the Bank of England.
(*c*) Advances by Public Departments.

The last two are commonly known as Ways and Means Advances, and will be considered next month.

Treasury bills were instituted in 1877 on the suggestion of Walter Bagehot, a former editor of *The Economist*. Each week a certain number of them are sold by the Bank of England on behalf of the Government, and are paid for by their buyers in spot cash, which is handed over to the Government. On the maturity of the bill, the Government reimburses the holder with the amount specified thereon. The function of the bill from the Government's point of view is that it is a means of raising a loan running for the period of the bill. Its function from the money market's point of view is that it provides a means of lending spare funds for a short time to the British Government, whose status and security as a borrower are unquestionable. The real point of the Treasury bill, as envisaged by Bagehot, was that it would enable the Government to tap the floating supplies of money which are always to be found in the London money market.

* Date when bill is payable.

It is now necessary to expand this very brief description by an explanation of the actual way in which Treasury bills are issued. Since they were first instituted Treasury bills have been issued to run for various periods up to a year, but of recent years only three months' bills have been issued, and so they alone will be considered. Incidentally, Treasury bills are not entitled to days of grace, but are paid on their date of maturity.

Every Friday a notice appears in the *London Gazette* to the effect that on the following Friday the Bank of England will, on behalf of the Government, offer a certain quantity of Treasury bills (£40,000,000 is a common amount) to be tendered for by prospective purchasers the following Friday. Treasury bills are issued in denominations of £5,000 and £10,000, but tenders must be for an amount not less than £50,000, and must be submitted through a London Banker, Discount House or Broker. The Treasury acting through the Bank of England is not bound to accept any tender, though naturally it accepts those made at the highest price. Nor is it bound to issue the exact amount specified in the offer, though again it usually (but not invariably) does so.

Applications can be "dated" for any working day during the week following the Friday on which the tender is lodged. If an application is dated for "Monday," the bills are issued and paid for (in cash or a Banker's Draft on the Bank of England) at the Bank on Monday, and also reach maturity and are redeemed at the Bank exactly three calendar months after that Monday; and so with applications dated for other days of the week. If an applicant tenders for bills of different date, he has to lodge separate tenders for each date, for the applications for each day of the week are dealt with as a separate unit.

A tender has to specify the amount of bills applied for, the date for which the bills are required, and the price offered for the bills. The price is expressed in pounds, shillings and pence per £100 face value of the bill,* and must be in even multiples of a penny. Obviously, the higher the price offered, the better bargain it is for the Government and so the better chance there is of the tender being accepted. Incidentally, the arithmetic of Treasury bills is the same as that of

* As bills of £100 denomination are not issued the percentage form the price takes is purely conventional, just as the Bank of England sells gold at a minimum price *per ounce*, but actually makes its sales in bars of about 400 ounces.

other bills of exchange—the greater the price paid for them, the lower the rate of discount at which they are sold.

All tenders have to be in by one o'clock on Friday, and then the Bank authorities consider which to accept and reject. The Bank of England send to the successful applicants a notice which they receive on Saturday morning, stating the amount of bills allotted to them, and the amount of money due. The Bank's decision, as announced to the public, takes the following form :—

"Tenders for £40,000,000 in Treasury bills were opened on July 31st, 1931, and the total amount applied for was £50,510,000. Tenders were accepted for bills at three months, dated Tuesday to Friday at £98 18s. 1d., about 70 per cent, and above in full, and Saturday at £98 18s. 4d. and above in full. The amount allotted was £40,000,000."

This means that applicants for bills dated Tuesday to Friday inclusive fared as follows :—

Tenders at £98 18s. 2d. and upwards	allotted in full.
Tenders at £98 18s. 1d.	allotted 70 per cent of amount applied for.
Tenders at £98 18s. and less ..	applications rejected.

Applicants for Saturday's bills fared as follows :—

Tenders at £98 18s. 4d. and upwards	allotted in full.
Tenders at £98 18s. 3d. and less ..	applications rejected.

There were no applications dated Monday, August 3rd, for that was a Bank holiday and so not a "working day."

The Bank of England also announces the average rate of discount at which each week's allotment is made. For the allotment of July 31st, the average rate was £4 6s. 6·72d. per cent per annum. This equals a rate of discount per three months of one quarter of the above figure, or £1 1s. 7·68d. This means that the average price at which the bills were allotted was £98 18s. 4·32d. or 2d. higher than the minimum price at which Tuesday's to Friday's bills were placed. This shows that tenders for Treasury bills have to be judged within a few pence if they are to be successful without giving the Government over-generous terms.

Over and above the weekly tender, the Bank of England is authorised to issue additional bills at a fixed rate known as the "tap rate," slightly below the average "tender" rate. Obviously

people who missed the tender have to pay more to get bills "on tap." During and immediately after the war all Treasury bills were offered at a fixed rate. Recently no additional bills have been issued, and a notice to that effect appears regularly in the Bank of England each week.

Once Treasury bills are issued they change hands in the money market just as other bills of exchange, and while the rates of discount at which they are bought and sold naturally conform fairly closely to the rate at which new Treasury bills are being issued each week, the agreement is not exact. Treasury bills during their week of issue are known as "hot" bills, and the rate of discount at which they are dealt in is described accordingly. As Treasury bills approach maturity they come within the category of "short" bills, as defined in a previous article in this series.

This completes the description of the way in which Treasury bills are issued and dealt in. The next article will consider the factors governing their supply and demand and their effect on the money market and the credit system of the country.

Notes of the Month

The Money Market.—The past month has been unusually eventful. In July the European crisis was the cause of substantial withdrawals of foreign funds from London, as banks in all centres thought it advisable to strengthen their cash resources. This brought about gold losses amounting to over £30 millions by the end of the month, reduced the Bank of England's gold stocks to £132 millions, and forced the Bank to raise its discount rate from 2½ to 3½ per cent on July 23rd, and then to 4½ per cent a week later. Early in August two very important decisions were announced. To enable London to meet the foreign demand for funds other than by shipping gold, the Bank of England arranged with the Banque de France and the New York Federal Reserve Bank for a credit of £25,000,000 from each institution in its own currency. Simultaneously, to provide against the possibility that heavy gold losses and the holiday expansion in the note circulation might between them deplete the banking department's reserve, consisting almost entirely of notes issued but not in circulation,

to an inconvenient extent, the Bank obtained authority from the Treasury under the terms of the 1928 Currency and Bank Notes Act to increase the fiduciary note issue from £260,000,000 to £275,000,000, thereby transferring an extra £15,000,000 of notes to the banking department. These were both clearly emergency measures, designed to meet an abnormal pressure from abroad, and apart from a temporary fall in sterling on August 5th, superficially they proved efficacious, for the gold drain was checked, and sterling appreciated. Unfortunately it soon became apparent that not only were the credits being extensively drawn upon but that they were rapidly approaching exhaustion. The real need of the situation was to restore foreign confidence in sterling, already unsettled by the German crisis and the revelations of the economy report, and the only way to do this was to make such reductions in the national expenditure as were needed to balance the budget. The Labour Government was unable to formulate the required action in the short time vouchsafed to them before the exhaustion of the Bank of England credits, and it was realization of this that brought about its downfall. The rehabilitation of the national finances, which alone can restore foreign financial confidence in London and the pound, is the immediate task of the new Government.

The Foreign Exchanges.—During the latter half of July, sterling displayed marked weakness against most foreign currencies, and French and Swiss francs, Dutch florins, belgas, and dollars were all quoted at rates below the export gold point. New York refrained from taking gold from London, but shipments amounting in a single fortnight to £32,000,000 were made to the remaining centres, principally to Paris. The double increase in Bank rate, followed by the news of the Bank's foreign credits, strengthened sterling, and for a few days the majority of the exchange rates stood high enough to check the gold outflow. On August 5th, however, there was a temporary collapse in sterling, the dollar rates falling to \$4·84⅜, the Paris rate to Frs. 123·30 and the Amsterdam rate to Fl. 12·02¾. This collapse was due to a misunderstanding abroad as to how and when the Bank's credits were to be employed, and after a few hours the situation was cleared up and sterling rallied to within the gold points of most exchanges. Since then steadier conditions have prevailed, but, as stated

above, it is apparent that this stability has only been obtained by the use of the Bank's credits. The Berlin exchange has remained very steady at approximately Mks. 20·55, but dealings have been very restricted. Still, the re-opening of the banks at the end of July followed by the reduction in the Reichsbank's rediscount rate from 15 to 10 per cent on August 12th had no untoward effect, and for the moment the situation is well in hand. South American exchanges displayed some weakness early in August, but a moderate rally followed in the case of the Buenos Aires and Montevideo rates.

The Stock Exchange.—Business has been severely restricted by the crisis at home and abroad and by the holidays, and prices consequently have been unrepresentative. Markets, however, became more cheerful on the news of a change of Government. Previously, the gilt-edged market had reacted on the double increase in Bank rate, and War Loan was also affected by Mr. Snowden's conversion statement made immediately before the rising of Parliament, and by rumours of an immediate conversion operation heard the following month. European bonds have naturally been dull, but there was some improvement in Austrian and German issues early in August in sympathy with more hopeful news from those countries. South American bonds have been weak. Home rails have again fallen on disappointing traffic returns and dividend announcements, and there is no buying movement to off-set such sporadic selling as is always taking place. Foreign rails were also a disappointing market until late in August when there was a rally in Argentine rails. Business in industrials is very restricted, and price fluctuations have been irregular and unrepresentative. Pronounced weakness in the commodity markets has led to further declines in oil and rubber shares. In the mining market, Kaffirs have on the whole held their ground, but base-metals again fell until nearly the end of the month when tin shares improved on the announcement of the formation of a pool in tin stocks.

Overseas Trade.—The July results were a little better than those of previous months. Imports at £70·1 millions were the highest since March, and British exports at £34·3 millions the highest since January. Re-exports, however, at only £4·9 millions fell to the lowest level of recent years, their

decline being clearly due to the international crisis with its interruption to trade.

Description.	Jan.-July, 1930.	Jan.-July, 1931.	Increase (+) or Decrease (−)
Total Imports	626·8	487·9	−138·9
Retained Imports	570·9	447·3	−123·6
Raw Material, Imports	161·6	103·9	− 57·7
Total Exports, British Goods	355·6	233·4	−122·2
Coal Exports	27·9	20·0	− 7·9
British Manufactured Goods, Exports ..	278·3	176·9	−101·4
Re-Exports	55·9	40·6	− 15·3
Total Exports	411·5	274·0	−137·5
Visible Trade Balance	−215·2	−213·9	+ 1·4

Unfortunately the July improvement possesses no real significance, for the year's results to date remain most disappointing. The comparison with 1930 is given above, but it should be remembered that 1930 itself was a bad year. If one or two sample comparisons be made with 1929, coal exports for 1931 to date were 24·8 million tons against 33·9 million tons for the first seven months of 1929. Iron and steel exports were 1,168,000 against 2,617,000 tons, machinery 197,000 against 333,000 tons, cotton piece-goods 1,025 against 2,290 million square yards, and woollen tissues 33·1 against 64·4 million square yards. These figures show the real extent of the trade depression.

Home Reports

The Industrial Situation

The reports published below relate to conditions as they existed immediately prior to the recent change of Government. There is no doubt that, in addition to holiday closures—too often extended owing to lack of orders—our leading industries have been under the shadow of the crisis both at home and abroad. The needs of the moment are clear. National expenditure and the burden of taxation must alike be reduced, and British manufacturing costs must be brought into line with those of other countries, on the 1931 and not the 1929 scale of prices. The outlook depends on how far and how soon the new Government is able to reach these objectives.

Agriculture

England and Wales.—Though corn crops have made good growth, sun is badly needed to ripen them, and owing to the storms considerable damage has been done. Disease is prevalent among the main crop of potatoes and consequently it is estimated that yield will be below average. Owing to lack of sun much spraying of hops has been necessary and yields will be under average. Damage has been caused during the harvesting of seeds and meadow hay, and though grass has been plentiful it has been too wet to be of good feeding quality. Milk yields have been about normal.

Scotland.—Wet weather and flooding have seriously affected harvesting prospects. The hay crop, though abundant, lost a good deal in quality and much of the grain has been laid by the heavy rains during August. The main potato crop has also suffered from excessive moisture and lack of sunshine, although there is stated to be little, if any, disease apparent in the Lothians. In the markets grain prices have been generally poor but new potatoes are meeting a good demand. The livestock markets have been more active with quotations mostly maintained.

Coal

Hull.—Large coal is very scarce for both prompt and forward shipment, and prices are unchanged.

Newcastle-on-Tyne.—The market generally is quiet but there is more enquiry for prompt and forward shipment. Best steams and best description Durham bunkers are in good demand. Coke is firmly held at late prices for spot and September shipment.

Cardiff.—There is no material improvement in the enquiry on the South Wales coal market after the holidays. Sized coals are easily obtainable at the minimum prices, and small coals and washed duffs continue abundant and weak. The anthracite market for best qualities is very firm.

Newport.—The market for Monmouthshire coal has continued dull. The restrictions on French coal imports have had a further depressing effect and shipments have been at a very low level.

East of Scotland.—In both Fife and the Lothians navigation coal has continued to meet with a good demand owing to short outputs. Steams are also showing some improvement. The position for washed fuels is firm.

Glasgow.—Though the home demand for coal in Scotland shows a tendency to improve, as is usual at this season of the year, there is a very decided scarcity of export orders and supplies of practically all qualities, large and small, are plentiful in the shipping branch of the market. New business with foreign countries is very restricted owing to the fact that collieries' quotations are too high to attract the foreigner and exporters will not sell forward speculatively.

Iron and Steel

The iron and steel trades remain quiet in all sections. This is partly due to holiday causes, but even so the outlook is decidedly depressing.

Birmingham.—The usual accumulation of orders after the holiday is quite small, but there is some improvement in the demand for structural steel, though demand is limited to small quantities for early delivery. The market for Continental steel is poor, quotations having been reduced without any effect on business. Galvanized sheet prices continue to give way.

Newport.—Imports of semi-manufactured steel increased considerably, though exports, unfortunately, showed only a slight improvement as compared with the previous month and a considerable drop from last year's figures. The majority of the works are either stopped or working irregularly, and there is little sign of improvement in any direction.

Glasgow.—The better sentiment which was created by the announcement of the Hoover plan has entirely passed away and given place to renewed depression owing to the disorganized financial situation in Europe. In all branches both home and export orders are very scarce, and producers are employing their plants at a rate which is considerably short of capacity. The demand from eastern markets which is usually experienced at this season of the year has fallen far short of expectations.

Engineering

Birmingham.—Heavy engineering is still dull and factories are finding it difficult to remain even reasonably employed. Motor car and accessories manufacturers are now preparing for next season and there is little business passing.

Coventry.—In the motor industry seasonal quietness prevails, and manufacturers are now entering upon their production for next year. The machine tool trade shows no improvement. A good deal of business is, however, being done with Russia. Electrical engineers continue active.

Luton.—Some branches are quite busy, and the outlook is brighter than last month. In the motor industry August is usually quiet and this year is no exception.

Glasgow.—The marine branch of the engineering trade in the West of Scotland shows no signs of recovery, the shipbuilding industry being in as depressed a state as ever, as is shown in the returns of output of tonnage from the yards on the Clyde. No improvement can be expected until world trade expands and shipowners see their way to employ boats profitably.

Cotton

Liverpool.—The outstanding feature of the period under review was the Bureau report of this year's U.S. cotton crop issued on August 8th. The surprisingly large estimate of 15,584,000 bales was considerably in excess of the highest preconceived figures, and its publication resulted in an immediate drop of 1d. per lb. on the local market to 3½d. per lb. for middling, this representing the largest relative, though not actual, fall in the price of the staple in any one day upon record. Notwithstanding this precipitate movement and the fact that the fall in quotations represented a decline of, roughly, £2,000,000 in the value of cotton in store in Lancashire warehouses, the difficulties of the situation were well surmounted by local traders, and the settlement following the Bureau's announcement was unattended by any failure. A subsequent rally in quotations of ¼d. per lb. upon the Farm Board's proposal to plough in one-third of this year's crop was not held, the scheme being considered here as fantastic and impracticable.

The outlook is uncertain, but the balance of opinion still leans to the bearish side, and in view of the fact that potential supplies appear to be rather more than sufficient for two years at the present rate of consumption, this view would seem to be justified in the absence of material improvement in trade conditions. Spot and trade sales have been slightly better in volume, American and Egyptian varieties being those chiefly dealt in. The demand for Peruvians and Brazilians has fallen away.

Wool

Bradford.—Very little business is being transacted at present, as most of the mills are closed for the holidays.

Huddersfield.—Trade is no better in the fancy worsted section. In the past a fair business has been done with Germany and Austria, and the present unsettled conditions prevailing on the Continent make business still more difficult. There is no improvement in the woollen section, but latterly there have been more enquiries for ladies' dress goods and sports cloths.

Hawick.—While the price of wools continues low, more confidence is manifesting itself in the Border tweed trade and a considerable number of repeat orders, particularly for the spring of 1932, are being received. The hosiery branch is keeping up the recent improvement, but the fancy goods section remains dull.

Other Textiles

Belfast.—The market for the past month is dull owing to the holiday season. Flax remains firm and is likely to maintain its price owing to the small sowing. The Irish crop is the smallest since the war. Yarns are very dull at present, but hold their price wonderfully well in spite of the abnormal cotton situation. Cloth is very much a hand-to-mouth business, as is general at this time of year.

Dunfermline.—The cotton situation has added to the difficulties of the Fifeshire linen trade with the United States, and, notwithstanding the keen rates prevailing for manufactured goods, buyers are not yet coming forward. The price of flax is very firm and it is evident that speculative dealers are having difficulty in securing supplies to meet their commitments.

Clothing

Leicester.—Business in specialities is fairly good, but owing to the tremendous importation of low quality goods, general trade is slow. The recent financial crisis has also affected business.

Luton.—The ladies' hat trade is still benefiting from the change of fashion.

Leather and Boots

Leicester.—In some branches a moderate seasonal demand is being experienced in the boot and shoe trade, but conditions are not so favourable as compared with a month ago.

Northampton.—Prices tend to be erratic. On account of the holiday there has been little turnover during the current month. The boot and shoe trade is slow, and at present there is little prospect of improvement. The majority of the factories have opened after the holidays and very few can be said to be well supplied with orders. Price cutting is still said to be acute.

Shipping

Hull.—Orders still remain very scarce and with tonnage freely offered rates show no change.

Liverpool.—Apart from grain chartering, which has at times been notably active in the River Plate section, the demand for tonnage shows no improvement, and rates all round are practically unchanged.

Newcastle-on-Tyne.—Chartering is extremely quiet, and orders are scarce. Owners, however, do not force the market, and rates remain quietly steady.

Newport.—There has been a slight improvement in rates and the number of fixtures to the Plate and the Black Sea, but other markets remain at their former depressed level. The Post Office authorities have now provided ship-to-shore telephone service at the Alexandra Docks, the first of the kind in the Bristol Channel.

East of Scotland.—There is no improvement in shipping conditions at the Forth ports. Only about a dozen vessels are on loading turn for coal shipments, while other branches are equally depressed.

Glasgow.—The demand for tonnage to load coal at ports in Scotland is still very restricted owing to the depression in the export branch of the coal trade and scarcity of c.i.f. orders, and rates are very low.

Foodstuffs

Liverpool.—Adverse financial conditions and heavy offers by shippers resulted in still further " record " low levels being reached by wheat quotations. At this period selling pressure from Eastern Europe was very pronounced. Subsequently the market became rather firmer on lower estimates of the U.S. spring crop and poor reports regarding the Canadian crop, whilst an increased demand arose from the Far East; but so long as the market continues under the influence of such heavy supplies in the chief exporting countries, with the prospect of the steady offering at low prices of a large surplus from Russia and the Balkan countries, any important recovery is looked upon as unlikely for some time. Shipments from the Argentine have been exceptionally heavy, and, notwithstanding a heavy offtake, quotations for this cereal have been forced down. During the last month the supplies of Danish and Continental bacon have hardly been enough to keep pace with the demand, with the consequence that prices have advanced. American bacon was in fair demand, with supplies light. Hams remained steady, but the lard market was easy. A very satisfactory trade in butter for the first half of the month was adversely affected by financial troubles in Germany; owing to the inability of that country to purchase, larger quantities of Continental butter became available to the United Kingdom markets and prices fell markedly, but a slight improvement was shown later. Cheese was in good demand and low prices led to an increased consumption. The canned goods trade has been slow, buyers merely covering their immediate requirements.

Fishing

Lowestoft.—During the month of July the quantity of fish landed in Great Britain decreased, chiefly owing to the shortage in the herring catch in Scotland. The herring fishery in Scottish waters proved an even greater failure than that of a year ago, and, as last year, by the end of the month the majority

of the East Anglian drifters had left the Shetlands. In the Shields district the herring fishery has shown an improvement on last year.

West of England.—In Mounts Bay the fishing for the past month has been, on the whole, fairly good. The long liners have done better than in the previous month, some fine catches having been landed. The pilchard fishing has been rather slack on account of weather conditions, which has prevented the small boats from getting into deeper waters where the pilchard is now caught. At Brixham increased landings with better prices were recorded during July. This is seasonal and does not reflect the general state of the industry in Torbay, which is still very depressed.

Scotland.—The East Coast herring fishing has shown no improvement during the past month and the fleet returned home from the North fishing grounds considerably earlier than usual in the hope that the English season would yield better results. The line fishing has been fairly active, with prices at a satisfactory level.

Other Industries

Carpet-making.—Kidderminster carpet manufacturers have passed on to dealers the recent reductions in raw material prices, and it is hoped that this will stimulate trade. Makers of Axminster piece-goods are busy. New designs for the spring trade are being rapidly prepared by all sections, and as the price reductions will enable dealers to clear their old stocks, good results should be obtained.

Metal and Hardware Trade.—Rolling mills and tube makers still continue to work short time. Demand for hardware for the building trades is a little better, but nothing like up to makers' capacity.

Paper-making and Printing.—Acute depression prevails in the Edinburgh paper-making trade, with practically all the mills on short time, and unemployment is prevalent. The printing trade is also dull, and the prospects for the autumn publishing season are regarded none too hopefully.

Timber.—The Hull trade during the past month has been quiet, the demand for building timbers, however, keeping up. Prices are lower owing to the heavy drop in the Central Softwood

Buying Corporation Schedule for Russian goods, which are now considerably cheaper than Finnish and Swedish. Buyers, however, are still holding off, fearing the latter countries will again undersell the Russians.

Tin Mining.—The Cornish Tin Smelting Co. have now closed down their establishment, at any rate for the present. They were the only smelters in Cornwall, and their decision has caused a further feeling of depression in the district.

Dominion Reports

Australia

From the National Bank of Australasia Limited.

Though general conditions are unimproved, the political situation is somewhat clarified. Electors appear more alive to the true economic position, and reductions in wage rates, civil service salaries, pensions, interest rates, etc., are being received without marked resistance. The conversion of the internal public debt is proceeding, and large amounts have been converted. The winter season is now practically ended, with less difficulty than was expected.

India

Bombay cotton prices fell considerably in July, following the drop in American prices, and there was little demand from Europe, though a considerable quantity was sold to the Far East. Dealings in piece goods were confined almost entirely to Japanese goods. Satisfactory monsoon reports have imparted a more hopeful outlook to the markets. Fair sales of mill stocks are reported, and many important mills are booked for some months ahead. Although prices are still very low, a distinctly better tone is noticeable in the tea trade. The market has been more active, and keen bidding took place.

Irish Free State

An inclement season will probably result in a late harvest below the average in size. Hay-making has been seriously retarded, though the yield is reported to be a good one. Blight is general in the potato crop, but has not spread to a very serious

extent. The cattle trade responded to the removal of import restrictions into England, and a marked briskness has replaced the depression formerly caused thereby. Prices in the pig trade show some improvement.

Foreign Reports

France

From Lloyds & National Provincial Foreign Bank Limited

Foreign trade figures for the first seven months of 1931 show an adverse visible trade balance of 8·2 milliard francs. The figure for July alone is 1·3 milliards. During the first four months of the financial year revenue receipts have shown a yield in excess of estimates. This is not due to increased economic activity but to the large increase of customs duties, chiefly on imported foodstuffs. On the Stock Exchange, though prices do not show any great decline, the market remains dull and inactive; this is attributable to disappointment over the London Conference and the uncertain situation in Germany. It is noticeable that 6 per cent loans already due for conversion continue to harden.

Bordeaux.—Business in the wine trade is quiet. No improvement is expected unless the new wines come on the market at prices lower than those now current. Vines have developed well and wine should be of good quality. The vintage is expected to be a week earlier than usual.

Le Havre.—Owing to the fact that the United States Government's estimate of this season's crop is about 1·5 million bales more than was expected, there has been a sharp drop in cotton prices, with a slight improvement later. There has been a decline about 30 points in coffee prices during the last month. As a result of recommendations by Brazil for increased import tariffs the French Government may, after the expiration of the existing Commercial Treaty in September, put an end to the present preferential treatment of Brazilian imports and increase the duty on them.

Lille.—The situation here has not improved. Prices for raw American cotton have reached the lowest level for twenty years and transactions in Russian flax are at a standstill owing to

the closing of several Riga banks. A Government contract for nearly one million metres of linen cloth will enable looms to keep working for several months.

Roubaix.—After a ten weeks' struggle and enormous losses on both sides, the strike ended here in a complete defeat for the workers. The reduction in wages enforced amounts to only 4 per cent, but this is likely to be followed by other reductions. The economic crisis is beginning to tell heavily on the manufacturing community. Trade in general is very bad, and much short time is being worked in the mills. It is feared that there will be no permanent improvement in trade until there is some settlement of Central European financial questions.

Marseilles.—The prices of oil seeds have been fairly well maintained, although business has been rather restricted. The olive oil market continues quiet. Crops are reported to have suffered from lack of rain, but it is likely that the yield will be sufficient to meet demands.

Belgium

From Lloyds & National Provincial Foreign Bank Limited

Brussels.—Business conditions show no signs of improvement. Prices have fallen slightly in the iron and steel industry. On the Stock Exchange prices remain weak.

Germany

For the moment the situation is being held. The banks re-opened without any difficulty, and the Reichsbank felt justified in reducing its rediscount rate from 15 per cent, to which it had been raised on July 31st, to 10 per cent on August 12th. Steps taken to stabilise the banking situation include the reconstruction and re-opening of the Danatbank and other banks which had to suspend payment, the provision of fresh capital to the Dresdner Bank, and the creation of a new Acceptance and Guarantee Bank, to provide mutual support for any bank that may need it. In all these operations the Government played a leading part. Foreign exchange dealings are still controlled and the bourses are not fully re-opened. The international banking committee at Basle has made recommendations for dealing with Germany's foreign short-term loans, designed to give Germany relief for six months. Further

rigorous measures of economy have been announced by the Government, designed to deal with the financial emergencies of the States and Communes.

Holland

Holland is experiencing the full force of the decline in prices. In few other countries has the fall in the index number of wholesale prices gone so far, the figure for July being 97, compared with 100 in 1913. The Stock Exchange is dull, though there is no sign of nervousness. In the money market supplies are plentiful. The flow of gold from England continues and the bank-note circulation is now covered to 70 per cent in metal.

Norway

The decision to suspend whaling for the forthcoming season was affected by the report that the whaling companies managed by Messrs. Galvesten & Co., Leith, were about to sail. In this case the Norwegian whaling fleets may be forced to go out, a step which may have serious consequences. Some confusion has been caused in the timber industry by a Governmental decree for the regulation of timber imports. The market for planed wood continues very quiet. The hoped-for settlement of the labour conflict has failed, the workers, by 3,000 votes, having declared themselves unwilling to accept the reduction of wages proposed by the employers. The proposal of the mediator was rejected and the conflict has been extended.

Sweden

The timber market is still suffering from the Russian contracts with England, and large stocks remain unsold. Cellulose has found a better market in the last few weeks. Unemployment is still increasing.

Denmark

During the month both butter and bacon have advanced in price owing to decreasing production. Turnips and meadow-hay were damaged by the violent rainfall during July and an average harvest is not expected. The breaking up of the international azote cartel is a benefit to Danish agriculture and

is estimated to save farmers at least 7 million kroner. The Government intends to support agriculture by proposing reductions of taxes and interest, the reduction being covered by an increase of 25 per cent of the tax on incomes exceeding Kr. 5,000, higher taxes on property and savings on the military budgets. The farmers, however, are not at all satisfied and would prefer an adjustment of public expenses to the present price level.

Switzerland

From Lloyds & National Provincial Foreign Bank Limited

Important developments have taken place recently in the watch industry. A super-holding company, to be known as the Société Générale de l'Horlogerie Suisse, S.A., is to reorganize the whole of the industry. It is supported by the leading Swiss Banks and it is expected that the Federation will give its financial support to the extent of 5 million francs. In other industries reports are not bright. Tourist traffic has suffered from the German restrictions on foreign travel. Recent conditions have caused a heavy influx of capital into Switzerland, and this probably accounts for the exceptionally high rate for the franc on foreign exchanges. The bank-note circulation is covered to the extent of 96½ per cent in gold.

Spain

Political uncertainty continues to depress the exchange, though the increase in note circulation appears to have been checked. This year's grape crop is considered only middling and wine prices keep firm in consequence. The growers are faced with the problems of the new French tariff and the diminishing demand from the South, which in normal times is a large consumer.

Morocco

Trade is being restricted by the exhaustion of the quota of Moroccan soft wheat allowed to enter France free of duty. It is thought that shipments will be suspended until December 1st. Stocks of manufactured goods are low, and in certain lines imports have increased. There is the normal seasonal improvement in the demand for green tea.

United States

The trade depression grew worse during July, but the recession was partly seasonal. Steel mills averaged 34 per cent of capacity, this being the lowest figure since 1921. Automobile production fell to 221,000 units, or to 14 per cent below the June level. The year's output to date is 28 per cent below the corresponding 1930 figure. There was a seasonal decline in new construction contracts placed during the month. Freight movements are 18 per cent below last year's level. The textile manufacturers have improved their statistical position, but the break in raw cotton prices has had a disturbing effect.

South America

Buenos Aires.—Important changes in the official classification of imports have added nearly a thousand articles to the specifically listed items having a tariff value. These should increase customs receipts considerably. A rough estimate published by the Ministry of Agriculture foreshadows a diminution of 20 per cent in the area sown with wheat this year, while the area sown with linseed remains unchanged.

Montevideo.—Measures being taken by the Government to improve the situation include balancing the budget by means of drastic economies in expenditure, involving reduction of public salaries and pensions, and prohibition and restriction of imports until December 31st.

Valparaiso.—With the settlement of the political situation business conditions have returned to normal.

Bogota.—The agricultural outlook is satisfactory but the cattle trade is dull.

Japan

The foreign trade figures for July show an excess of exports of Y9,000,000, compared with Y12,000,000 for July, 1930. For the first seven months of the year there is shown an excess of imports of Y103,000,000, which is Y107,000,000 less than for the corresponding period of last year. The efflux of gold continued during July. There has been an increase in the export of cotton goods to the Near East, British India, Egypt and the Dutch East Indies. The financial crisis in Europe has resulted in a shortage of money.

Banking

1. BANK OF ENGLAND

Date.	Issue Department.		Banking Department.				
	Gold.	Notes in circulation.	Reserve and Proportion.		Bankers' Deposits.	Govt. Securities.	Discounts &Advances.
1930.	£ mn.	£ mn.	£ mn.	Per cent.	£ mn.	£ mn.	£ mn.
Aug. 20 ...	*154·3*	*361·8*	*53·6*	*46·0*	*61·7*	*49·4*	*6·1*
1931.							
July 29 ...	132·0	359·4	34·0	32·4	55·8	52·6	9·7
Aug. 5 ...	133·5	365·2	44·6	41·2	63·4	49·3	9·0
Aug. 12 ...	132·0	360·0	48·2	42·9	58·2	53·2	7·0
Aug. 19 ...	133·5	354·1	55·7	45·8	61·7	48·9	6·9

2. TEN CLEARING BANKS

Date.	Deposits.	Acceptances.	Cash.*	Call Money.	Bills.	Investments.	Advances.
1930.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.
July	*1,830·9*	*124·5*	*243·2*	*145·3*	*286·4*	*255·8*	*966·7*
1931.							
January	1,873·3	115·0	243·7	144·3	329·7	296·9	923·9
February	1,819·6	121·4	233·7	115·9	301·2	309·4	924·9
March	1,763·9	121·5	227·5	114·1	240·4	311·1	936·1
April	1,735·7	115·3	224·3	117·0	211·0	308·5	940·3
May	1,737·8	114·2	223·0	131·5	224·0	290·0	934·6
June	1,781·9	115·9	236·4	133·2	265·7	288·4	923·0
July	1,787·7	113·0	229·2	130·4	281·0	299·5	913·0

* Includes balances with other banks and cheques in course of collection.

3. LLOYDS BANK, RATIO OF CURRENT ACCOUNT CREDIT BALANCES TO TOTAL DEPOSITS

Year.	Ratio.	Month.	Ratio. 1929.	1930.	1931.
			%	%	%
1902	58·2	January	46·8	45·1	45·9
1914	49·9	February	45·9	44·2	45·1
1919	60·7	March	45·2	44·5	45·3
1920	56·7	April	44·9	45·1	45·0
1921	50·7	May	44·1	44·0	44·8
1924	51·0	June	44·5	44·4	45·4
1925	49·6	July	45·4	44·7	45·7
1926	48·6	August	45·3	44·4	
1927	47·4	September	45·3	44·7	
1928	46·4	October	45·6	44·8	
1929	45·2	November	44·7	44·8	
1930	44·7	December	45·3	46·0	

Money, Exchanges and Public Finance

1. LONDON AND NEW YORK MONEY RATES

Date.	London. Bank Rate.	London. 3 Months' discount Rate.	London. Day-to-day Loans.	New York. Re-discount Rate.	New York. 90 Days' eligible Bank acceptances.	New York. Call Money.
1930.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Aug. 20 ...	*3*	$2\frac{3}{16}$—$\frac{1}{4}$	$1\frac{1}{2}$—2	$2\frac{1}{2}$	*2*	$2\frac{1}{2}$
1931.						
July 29 ...	$3\frac{1}{2}$	$3\frac{7}{16}$—$\frac{1}{2}$	$2\frac{3}{4}$—$3\frac{1}{4}$	$1\frac{1}{2}$	1	$1\frac{1}{2}$
Aug. 5 ...	$4\frac{1}{2}$	$4\frac{5}{16}$—$\frac{3}{8}$	$3\frac{1}{2}$—4	$1\frac{1}{2}$	1	$1\frac{1}{2}$
Aug. 12 ...	$4\frac{1}{2}$	$4\frac{1}{4}$—$\frac{3}{8}$	$3\frac{1}{2}$—4	$1\frac{1}{2}$	1	$1\frac{1}{2}$
Aug. 19 ...	$4\frac{1}{2}$	$4\frac{5}{16}$—$\frac{5}{16}$	$3\frac{1}{4}$—$\frac{1}{2}$	$1\frac{1}{2}$	1	$1\frac{1}{2}$

2. FOREIGN EXCHANGES

London on	Par.	1930. Aug. 20.	1931. July 29.	1931. Aug. 5.	1931. Aug. 12.	1931. Aug. 19.
New York ...	\$4·866	$4·87\frac{1}{32}$	$4·85\frac{9}{16}$	$4·85\frac{1}{16}$	$4·85\frac{3}{4}$	$4·85\frac{1}{4}$
Montreal ...	\$4·866	$4·86\frac{11}{16}$	$4·86\frac{7}{8}$	$4·86\frac{1}{8}$	$4·87\frac{1}{2}$	$4·87\frac{7}{8}$
Paris ...	Fr. 124·21	$123·81\frac{1}{2}$	$123·89\frac{1}{2}$	123·75	$123·95\frac{1}{2}$	$123·95\frac{1}{2}$
Berlin ...	Mk. 20·43	20·39	$20·43\frac{3}{4}$	$20·62\frac{1}{2}$	20·50	20·50
Amsterdam ...	Fl. 12·11	$12·08\frac{7}{8}$	12·05	$12·03\frac{1}{4}$	$12·04\frac{11}{16}$	$12·04\frac{3}{4}$
Brussels ...	Bel. 35	$34·85\frac{1}{4}$	34·79	34·79	$34·87\frac{1}{2}$	$34·86\frac{1}{2}$
Milan ...	Li. 92·46	$92·98\frac{1}{2}$	92·82	92·82	92·86	92·87
Berne ...	Fr. $25·22\frac{1}{2}$	25·04	24·89	$24·81\frac{1}{2}$	24·90	24·98
Stockholm ...	Kr. 18·16	$18·11\frac{3}{4}$	$18·15\frac{1}{2}$	$18·15\frac{1}{4}$	18·16	$18·15\frac{3}{4}$
Madrid ...	Ptas. $25·22\frac{1}{2}$	$45·72\frac{1}{2}$	53·60	55·10	56·05	55·20
Vienna ...	Sch. $34·58\frac{1}{2}$	34·45	34·55	34·55	34·55	34·55
Prague ...	Kr. 164·25	$164\frac{1}{8}$	$163\frac{7}{8}$	$163\frac{11}{16}$	164·00	164·00
Buenos Aires ...	47·62d.	$40\frac{7}{16}$	$33\frac{1}{4}$	$31\frac{1}{2}$	$32\frac{1}{2}$	$31\frac{9}{16}$
Rio de Janeiro ...	5·89d.	$4\frac{3}{8}$	$3\frac{7}{16}$	$3\frac{1}{4}$	$3\frac{9}{32}$	$3\frac{1}{16}$
Valparaiso ...	Pes. 40	39·71	40·00	40·05	40·05	40·05
Bombay ...	18d.	$17\frac{31}{32}$	$17\frac{31}{32}$	$17\frac{31}{32}$	$17\frac{7}{8}$	$17\frac{7}{8}$
Hong Kong ...	—d.	$16\frac{11}{16}$	$12\frac{1}{8}$	$12\frac{1}{4}$	$11\frac{3}{4}$	$11\frac{3}{4}$
Shanghai ...	—d.	$19\frac{3}{8}$	$15\frac{1}{8}$	$15\frac{1}{8}$	$14\frac{5}{8}$	$14\frac{5}{8}$

3. PUBLIC REVENUE AND EXPENDITURE

Revenue.	To Aug. 15, 1931.	To Aug. 16, 1930.	Expenditure.	To Aug. 15, 1931.	To Aug. 16, 1930.
Income Tax ...	39·8	46·3	Nat. Debt Service	137·2	135·9
Sur-Tax	14·2	12·3	Northern Ireland Payments...	1·9	1·8
Estate Duties ...	27·5	33·0	Other Cons. Fund Services...	0·7	1·1
Stamps	4·2	5·4	Supply Services	154·0	156·2
Customs	45·5	44·4	Ordinary Expenditure ...	293·8	295·0
Excise	38·9	42·2	Sinking Fund	14·0	14·7
Tax Revenue ...	172·4	185·2	Self-Balancing Expenditure...	24·4	26·5
Non-Tax Revenue	30·7	48·8			
Ordinary Revenue	203·1	234·0			
Self-Balancing Revenue	24·4	26·5			

Trade

1. PRODUCTION

Date.	Coal.*	Pig-Iron.	Steel.
1930.	Tons mn.	Tons thou.	Tons thou.
July	*4·2*	*486*	*621*
1931.			
January	4·4	337	402
February	4·8	318	486
March	4·5	357	500
April	4·3	323	397
May	4·2	347	435
June	4·2	324	429
July	3·8	317	429

* Average weekly figures for month.

2. IMPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1930.	£ mn.	£ mn.	£ mn.	£ mn.
July	*39·2*	*19·1*	*26·0*	*85·2*
1931.				
January	36·2	17·9	20·4	75·6
February	30·0	13·3	19·5	63·6
March	32·6	15·1	22·3	70·7
April	32·5	15·5	20·9	70·0
May	33·3	14·6	21·0	69·6
June	33·4	14·1	20·2	68·6
July	35·1	13·6	20·7	70·1

3. EXPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1930.	£ mn.	£ mn.	£ mn.	£ mn.
July	*4·4*	*5·2*	*39·7*	*50·7*
1931.				
January	3·7	3·7	28·7	37·6
February	2·8	3·8	24·0	31·8
March	3·0	4·1	25·6	34·0
April	2·9	4·1	24·3	32·5
May	2·8	4·0	26·0	33·9
June	2·6	4·0	21·6	29·4
July	2·7	3·8	26·5	34·2

4. UNEMPLOYMENT

Date.	1926.	1927.	1928.	1929.	1930.	1931.
End of—	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
January ...	11·0	12·0	10·7	12·2	12·6	21·5
February ...	10·4	10·9	10·4	12·2	13·1	21·7
March ...	9·8	9·8	9·5	10·1	14·0	21·5
April	9·1	9·4	9·5	9·9	14·6	20·9
May	14·3	8·7	9·8	9·9	15·3	20·8
June	14·6	8·8	10·7	9·8	15·4	21·8
July	14·4	9·2	11·6	9·9	16·7	22·6
August ...	14·0	9·3	11·6	10·1	17·1	
September ...	13·7	9·3	11·4	10·0	17·6	
October ...	13·6	9·5	11·8	10·4	18·7	
November ...	13·5	9·9	12·1	11·0	19·1	
December ...	11·9	9·8	11·2	11·1	20·2	

Percentage of Insured Workers.

Prices

1. WHOLESALE PRICES (average for month)

Date.	Index Number (1928–9 average = 100).				
	U.K.	U.S.A.	France.	Italy.	Germany.
1930.					
July	*83·8*	*86·1*	*86·8*	*82·3*	*90·2*
1931.					
January	73·9	80·0	79·2	74·1	82·8
February	72·5	78·4	78·9	73·3	82·2
March	72·4	78·2	78·5	73·0	82·1
April	72·2	76·6	78·8	72·4	81·9
May	70·0	73·5	77·4	71·1	81·6
June	68·4	72·2	76·2	69·5	81·0
July	68·4	71·9	75·2	68·0	80·5
July, 4th week	68·2	71·4	74·5	68·4	79·4
August, 1st week	66·8	71·6	74·0	69·1	79·1
August, 2nd week	66·2	71·6	74·0	67·7	79·7
August, 3rd week	66·1	71·5	—	67·7	79·9

Sources: U.K., "Financial Times"; U.S.A., Irving Fisher; France, Statistique Generale; Italy, Italian Chamber of Commerce; Germany, Statistische, Reichsamt.

2. RETAIL PRICES (end of month)

Date.	Food.	Rent (including rates).	Clothing.	Fuel and Light.	Other items included.	All items included.
1930.						
July	*44*	*53*	*110*	*70*	*75*	*57*
1931.						
January	36	54	100—105	75	75	52
February ...	34	54	100	75	75	50
March	29	54	100	75	75	47
April	29	54	95—100	75	75	47
May	27	54	95	70	75	45
June	30	54	95	70	75	47
July	28	54	95	70	75	45

The figures represent the percentage increase above July, 1914, which is equal to 100.

3. COMMODITY PRICES (average for month)

Date.	Wheat, No. 1 N. Manitoba.		Cotton, American Middling.	Wool, 64's tops avge.	Pig-Iron, Cleveland No. 3.		Tin, Standard Cash.	Rubber, Plantation Sheet.
1930.	Per qr.		per lb.	per lb.	Per ton.		Per ton.	per lb.
	s.	d.	d.	d.	s.	d.	£	d.
July	*40*	*0*	*7·56*	*26$\frac{7}{8}$*	*67*	*6*	*134$\frac{9}{16}$*	*5$\frac{3}{8}$*
1931.								
January	26	6	5·42	21$\frac{1}{4}$	59	6	115$\frac{7}{8}$	4$\frac{1}{8}$
February ...	28	0	5·86	22	58	6	118	3$\frac{7}{8}$
March	27	7	5·99	25$\frac{1}{8}$	58	6	121$\frac{11}{16}$	3$\frac{7}{8}$
April	28	0	5·68	24$\frac{3}{8}$	58	6	112$\frac{11}{16}$	3$\frac{1}{8}$
May	28	2	5·16	23$\frac{3}{8}$	58	6	104$\frac{3}{8}$	3
June	27	1	4·80	21$\frac{7}{8}$	58	6	105	3
July	25	5	5·21	22$\frac{1}{4}$	58	6	111$\frac{5}{16}$	3